

Strategy Research Project

ECONOMIC ASSESSMENTS FOR STABILITY OPERATIONS

BY

COLONEL ANDREW MCCONACHIE
United States Army

DISTRIBUTION STATEMENT A:

Approved for Public Release.
Distribution is Unlimited.

USAWC CLASS OF 2011

This SRP is submitted in partial fulfillment of the requirements of the Master of Strategic Studies Degree. The views expressed in this student academic research paper are those of the author and do not reflect the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.



U.S. Army War College, Carlisle Barracks, PA 17013-5050

The U.S. Army War College is accredited by the Commission on Higher Education of the Middle State Association of Colleges and Schools, 3624 Market Street, Philadelphia, PA 19104, (215) 662-5606. The Commission on Higher Education is an institutional accrediting agency recognized by the U.S. Secretary of Education and the Council for Higher Education Accreditation.

REPORT DOCUMENTATION PAGE

*Form Approved
OMB No. 0704-0188*

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing this collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to Department of Defense, Washington Headquarters Services, Directorate for Information Operations and Reports (0704-0188), 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to any penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number. **PLEASE DO NOT RETURN YOUR FORM TO THE ABOVE ADDRESS.**

1. REPORT DATE (DD-MM-YYYY) 18-03-2011		2. REPORT TYPE Strategy Research Project		3. DATES COVERED (From - To)	
4. TITLE AND SUBTITLE Economic Assessments for Stability Operations				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S) Colonel Andrew McConachie				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Professor Rick Coplen Peacekeeping and Stability Operations Institute				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES) U.S. Army War College 122 Forbes Avenue Carlisle, PA 17013				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION / AVAILABILITY STATEMENT Distribution A: Unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT Stability operations are paramount to long term success in attaining U.S. national interests. Support to Economic and Infrastructure Development is one of the five major stability tasks identified in FM 3-07, Stability Operations. Military planners need a strategic level economic assessment and impact statement to effectively plan and execute a successful strategy. This assessment, which must occur prior to initiating operations, should be both evaluative and predictive, assessing Host Nation (HN) economic capacity and predicting the impact of U.S. operations on the HN economy. This strategic economic assessment must draw upon the varying perspectives and expertise of multiple U.S. agencies, including the Department of State, Treasury, and U.S. Agency for International Development (USAID) as well as international organizations, and appropriate foreign ministries. Army financial managers must be well versed in economic considerations in order to provide sound recommendations to the commander. This paper suggests a framework for a comprehensive strategic level economic assessment focusing attention on the key questions to be answered regarding financial and resource management in Stability Operations.					
15. SUBJECT TERMS Employment, Inflation, Banking, Currency, Interagency Coordination					
16. SECURITY CLASSIFICATION OF:		17. LIMITATION OF ABSTRACT		18. NUMBER OF PAGES	
a. REPORT UNCLASSIFIED	b. ABSTRACT UNCLASSIFIED	c. THIS PAGE UNCLASSIFIED	UNLIMITED	30	19a. NAME OF RESPONSIBLE PERSON 19b. TELEPHONE NUMBER (include area code)

USAWC STRATEGY RESEARCH PROJECT

ECONOMIC ASSESSMENTS FOR STABILITY OPERATIONS

by

Colonel Andrew McConachie
United States Army

Professor Rick Coplen
Project Adviser

This SRP is submitted in partial fulfillment of the requirements of the Master of Strategic Studies Degree. The U.S. Army War College is accredited by the Commission on Higher Education of the Middle States Association of Colleges and Schools, 3624 Market Street, Philadelphia, PA 19104, (215) 662-5606. The Commission on Higher Education is an institutional accrediting agency recognized by the U.S. Secretary of Education and the Council for Higher Education Accreditation.

The views expressed in this student academic research paper are those of the author and do not reflect the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.

U.S. Army War College
CARLISLE BARRACKS, PENNSYLVANIA 17013

ABSTRACT

AUTHOR: Colonel Andrew McConachie

TITLE: Economic Assessments for Stability Operations

FORMAT: Strategy Research Project

DATE: 18 March 2011 WORD COUNT: 5,267 PAGES: 30

KEY TERMS: Employment, Inflation, Banking, Currency, Interagency Coordination

CLASSIFICATION: Unclassified

Stability operations are paramount to long term success in attaining U.S. national interests. Support to Economic and Infrastructure Development is one of the five major stability tasks identified in FM 3-07, Stability Operations. Military planners need a strategic level economic assessment and impact statement to effectively plan and execute a successful strategy. This assessment, which must occur prior to initiating operations, should be both evaluative and predictive, assessing Host Nation (HN) economic capacity and predicting the impact of U.S. operations on the HN economy. This strategic economic assessment must draw upon the varying perspectives and expertise of multiple U.S. agencies, including the Department of State, Treasury, and U.S. Agency for International Development (USAID) as well as international organizations, and appropriate foreign ministries. Army financial managers must be well versed in economic considerations in order to provide sound recommendations to the commander. This paper suggests a framework for a comprehensive strategic level economic assessment focusing attention on the key questions to be answered regarding financial and resource management in Stability Operations

ECONOMIC ASSESSMENTS FOR STABILITY OPERATIONS

Consideration must be given to economic factors that may impact the host nation's (HN) economy when developing a strategy for stability operations. The selected strategy must ultimately lead toward realizing the United States' (U.S.) enduring national interests. The National Security Strategy (NSS) identifies *security, prosperity, values, and international order* as the Nation's four enduring national interests.¹ The first interest more fully reads "The security of the United States, its citizens, and U.S. allies and partners."² When addressing advancing this interest during reconstruction in post-conflict environments the NSS continues, "[B]uilding the capacity necessary for security, economic growth, and good governance is the only path to long term peace and security."³ Seeking to advance the national security priorities in the NSS, the President addresses the importance of promoting universal values abroad and "recognize[s] economic opportunity as a human right."⁴

Stability operations are paramount to long term success in attaining these U.S. national interests. This is in large part contingent upon the stability operation's ability to support or enable economic opportunity. A United States Institute of Peace report opined that:

Most experts agree that finance-related state building is inherently important because governments cannot function without institutions that can adequately perform key financial functions such as formulating and executing budgets and maintaining macroeconomic stability.⁵

The importance of economics as a concern was likewise identified in Iraq. A survey of Iraqi adults conducted by D3 Systems on "the single biggest problem facing the country" demonstrated that while security is still the biggest problem it is trending

downward, conversely, concerns about economic issues have climbed since August 2007.⁶

This paper suggests a framework for a comprehensive strategic level economic assessment, focusing attention on the key questions to be answered regarding financial and resource management in stability operations. Military leaders, seeking to support and achieve strategic objectives, need an appreciation of economic considerations. The military will significantly impact the HN's economy, either positively or negatively. A strategic assessment of the existing economy is required and must occur prior to operations. The strategic question of how the military should interact with the HN's economy needs to be addressed. Central to this is whether or not the existing economy is thriving and legitimate as this will promote stability, thereby supporting U.S. interests. Answering this will inform how the military will partner with the HN in moving their economy forward. Additionally, understanding the HN economy can assist in identifying where proposed military operations could be detrimental to that economy. In this paper these questions center primarily on considerations relating to employment, inflation, banking, and currency. Military efforts must be in concert with those of other entities in order to support overarching strategic objects. This will require both an understanding of their priorities and improved coordination between stakeholders.

The military needs to be particularly versed in the potential impacts its activities can have on the economic environment of the nation in which it is operating. In recognition of this, "Support to Economic and Infrastructure Development" is one of the five major stability tasks identified in Field Manual (FM) 3-07, Stability Operations.⁷ Planners need a strategic level economic assessment and impact statement to

effectively plan and execute a successful strategy. This assessment should be both evaluative and predictive, assessing HN economic capacity and predicting the impact of U.S. operations on the HN economy.

The military cannot, and should not, operate in isolation and this strategic economic assessment must draw upon the varying perspectives and expertise of multiple entities. These include, but are not limited to, U.S. agencies (e.g., Department of State (DoS), Treasury, Labor, Agriculture, and U.S. Agency for International Development (USAID)), and international organizations as well as appropriate foreign ministries (if feasible). The degree to which these entities interact and coordinate is essential to effective outcomes. U.S. Army financial managers in particular need an understanding of the roles of the organizations they will be working with and an appreciation of the capabilities and expertise each brings to bear.

U.S. Army Financial Managers

Army financial managers make up a relatively small percentage of the overall force structure, therefore their ability to specialize within subsets of the financial management field are limited. As a result, officers normally could expect to perform both resource management and finance operations functions across full spectrum operations from strategic to tactical level. The National Defense Strategy (NDS) amplifies the importance of economics stating that “military efforts to capture or kill terrorists are likely to be subordinate to measures to promote local participation in government and economic programs...”⁸ Given the current and foreseeable global environment, the Department of Defense (DoD) has “stepped up to the task of long-term reconstruction, development and governance [and] will need to institutionalize and retain these capabilities...”⁹ U.S. Army financial management leaders recognized this

requirement. As such, Army financial management doctrine seeks to address this. The Final Draft FM 1-06, Financial Management Operations, states:

The Army must develop multi-functional [financial management] military and civilian personnel capable of applying the full array of U.S. fiscal and economic power employed during full spectrum operations with interorganizational partners in order to enhance U.S., multinational and host nation institutions and facilitate security, stability, and economic development.¹⁰

Improving Stakeholder Coordination

Military operations, to include stability operations, are part of a larger effort. This includes not only a “whole of government approach,” bringing all the elements of national power (diplomatic, information, military, and economic) to bear; but also expands beyond this to draw upon the capabilities of partner nations, and intergovernmental and non-governmental organizations.¹¹ To effectively achieve goals, the efforts of stakeholders must be synchronized. The need to improve coordination among stakeholders is a theme evident in strategic guidance. When operating in the joint, interagency, intergovernmental, and multinational environment it is essential to “understand[] the core competencies, roles, missions, and capabilities of [our] partners.”¹² Toward this goal the NDS states, “We will continue to work to improve understanding and harmonize best practices amongst interagency partners.”¹³ The Chairman of the Joint Chiefs of Staff (CJCS) states in the Chairman’s Assessment of the Quadrennial Defense Review that this understanding is needed “to minimize friction and duplicative efforts.”¹⁴

In an effort to improve U.S. government effectiveness in reconstruction and stabilization operations President Bush issued National Security Presidential Directive-44 (NSDP-44). It clearly identifies that the Department of State has the lead in these efforts stating:

The Secretary of State shall coordinate and lead integrated United States Government efforts, involving all U.S. Departments and Agencies with relevant capabilities, to prepare, plan for, and conduct stabilization and reconstruction activities.¹⁵

Given that stability and reconstruction efforts are often closely related to military operations, NSDP-44 articulates that, “The Secretary of State shall coordinate...with the Secretary of Defense to ensure harmonization with...military operations...”¹⁶ This directive demonstrates that the DoD plays a supporting, while important, role. Likewise, The First Quadrennial Diplomacy and Development Review (QDDR), published in 2010, “provides a blueprint for elevating American "civilian power" to better advance our national interests and to be a better partner to the U.S. military.”¹⁷ It states, “Where U.S. forces are deployed, civilian experts... are the “closers” who, with their local counterparts, can ensure the transition from conflict to stability to long-term development.”¹⁸ This is reiterated when addressing efforts in Afghanistan, continuing, “Our efforts to promote a stable future there will continue well after our troops return home.”¹⁹ In keeping with these policy and strategy documents, Army stability operations, within full spectrum operations, need to align with overall stability efforts in the “whole of government approach.”

Army financial managers should coordinate with the Department of Treasury, both during pre-operational planning and during military operations for revised assessments. The Department of Treasury’s Office of International Affairs uses two

means for providing overseas presence. These are Financial Attachés and its Office of Technical Assistance (OTA).²⁰ The Treasury attachés have knowledge in foreign financial policies and local conditions that should be considered in planning.²¹ OTA advisors assist the HN with implementing mutually agreed upon financial reforms, and should be embedded with the host Finance Ministry or Central Bank to facilitate effective cooperation.²² Military financial managers need to be aware of these OTA activities for two reasons. First, they can be a source of information and second, to ensure military actions do not run counter to the OTA's efforts. A cautionary perspective from Iraq was that civilian agencies "regularly found themselves deluged with requests from the many military organizations involved for status updates or priority action on issues of particular interest to the military."²³

Both the Department of State and Central Intelligence Agency (CIA) web pages are sources Army financial managers can use to familiarize themselves with economic background information relevant to an assessment. Additionally, two institutions that can play a role and should be taken into consideration are the World Bank Group and the International Monetary Fund (IMF). An IMF factsheet states that these two entities:

[S]hare the same goal of raising living standards in their member countries. Their approaches to this goal are complementary, with the IMF focusing on macroeconomic issues and the World Bank concentrating on long-term economic development and poverty reduction.²⁴

The World Bank's website has valuable economic indicators by country. Coordination with the World Bank Group and IMF will provide an understanding of current economic conditions and objectives for future development. By analyzing the relationship between these, the Army can pursue efforts that balance tradeoffs between short and long term objectives.

When to Conduct Economic Assessments and Planning

Planning and assessments to support economic and infrastructure development must occur prior to initiating military operations with reassessments continuing throughout the operation. To be more effective, commanders need to develop an understanding of the economic environment as part of pre-deployment intelligence efforts.²⁵ Understanding the economic environment is not enough. An associated evaluative economic assessment is needed to effectively act on the information relating to the host nation's economic activities. This will help planners "avoid actions that might disrupt economic recovery and to target efforts effectively to improve local living conditions..."²⁶

Within the execution of full spectrum operations, offense, defense, and stability operations take place simultaneously; and as conditions change, the emphasis given to each operation can transition quickly.²⁷ Plans need to be in place in order to rapidly transition effectively to stability operations from either of the others. David Anderson and Andrew Wallen refer to a "golden hour" stating, "A victorious invading nation – assuming its mission is benevolent – has a "golden hour", a limited amount of time in which it enjoys host-nation popular support and international legitimacy."²⁸

Operational Timeframes to Assess

The Department of State office of the Coordinator for Reconstruction and Stabilization (S/CRS) divides their post-conflict reconstruction essential tasks into three conceptual phases: "Initial Response (short-term), Transformation (mid-term), and Fostering Sustainability (long-term)."²⁹ Likewise, USAID identifies areas of emphasis for economic growth. The relative level of effort directed toward each of these emphasis areas changes over time.³⁰ The Army will need to take both S/CRS and

USAID time framing into consideration in determining where to weight its efforts. Given that the Army is generally in the area of operation early, particular attention must be given to the nearer term areas of concern. Support in this area can help set conditions for follow-on efforts that the other interagency and non-governmental organization (NGO) partners are better skilled to execute.

Economic Areas to Assess

In order to add value to the “whole of government approach” the Army needs to align its actions with other agencies. Having common or similar policy frameworks furthers this goal. The S/CRS has identified five technical sectors for reconstruction, one of which is “economic stabilization and infrastructure.”³¹ Working with the interagency community, they developed a post-conflict reconstruction essential task matrix.³² Army planners need to take this task matrix into consideration; and as part of interagency alignment, the Army brought these five technical sectors into FM 3-07 by aligning stability tasks with each of these stability sectors.³³ Examining how the Department of State S/CRS, USAID, and the Army categorize economic related efforts illustrates areas of commonality. How each categorizes these is described below and reveals how addressing employment, inflation, banking, and currency further advancement within these five technical sectors.

The S/CRS task matrix identifies eleven categories under Economic Stabilization. These are employment generation; monetary policy; fiscal policy and governance; general economic policy; financial sector; debt; trade; market economy; legal and regulatory reform; agricultural development; and social safety net.³⁴

FM 3-07 lists seven economic categories within the stability task “Support to Economic and Infrastructure Development,” they are: support to economic generation

and enterprise creation; support monetary institutions and programs; support national treasury operations; support public sector investment programs; support private sector development; protect natural resources and environment; and support agricultural development programs.³⁵ FM 1-06 again emphasizes the growing importance of performing these activities stating, “Although not traditional missions... [financial management] must evolve to support the theater commanders... in full spectrum operations – to include stability operations.”³⁶

Finally, USAID uses five program areas of emphasis for post-conflict economic growth: Provide humanitarian assistance and expand physical security, provide jobs, undertake policy and legal reforms, reconstruct infrastructure and provide public services, and build institutional capacity.³⁷ The level of effort for each of these over time is depicted in Figure 1. This also shows the importance a secure environment plays in setting conditions for economic processes. This USAID chart is a useful tool in enabling Army financial managers to provide recommendations to their commanders. It can serve as an appropriate reference point for aligning economic efforts in military operations with those of other entities. Efforts undertaken by the military should be oriented on the left quarter, or early, portion of the chart. Likewise, the military should initially orient on the S/CRS’ “Initial Response” and “Transformation” phases as listed in their Post-Conflict Reconstruction Essential Tasks document. This will not only align military and other entities’ efforts, it can also facilitate transitions from military to other entities as the post conflict economic activity focus shifts to different priorities across time. Additionally, given that the Army can expect to conduct full spectrum operations, it must also plan for activities to set conditions to the left of the chart, before entering the

post conflict environment. This will also assist in identifying and mitigating unintended adverse economic effects during earlier operational phases.

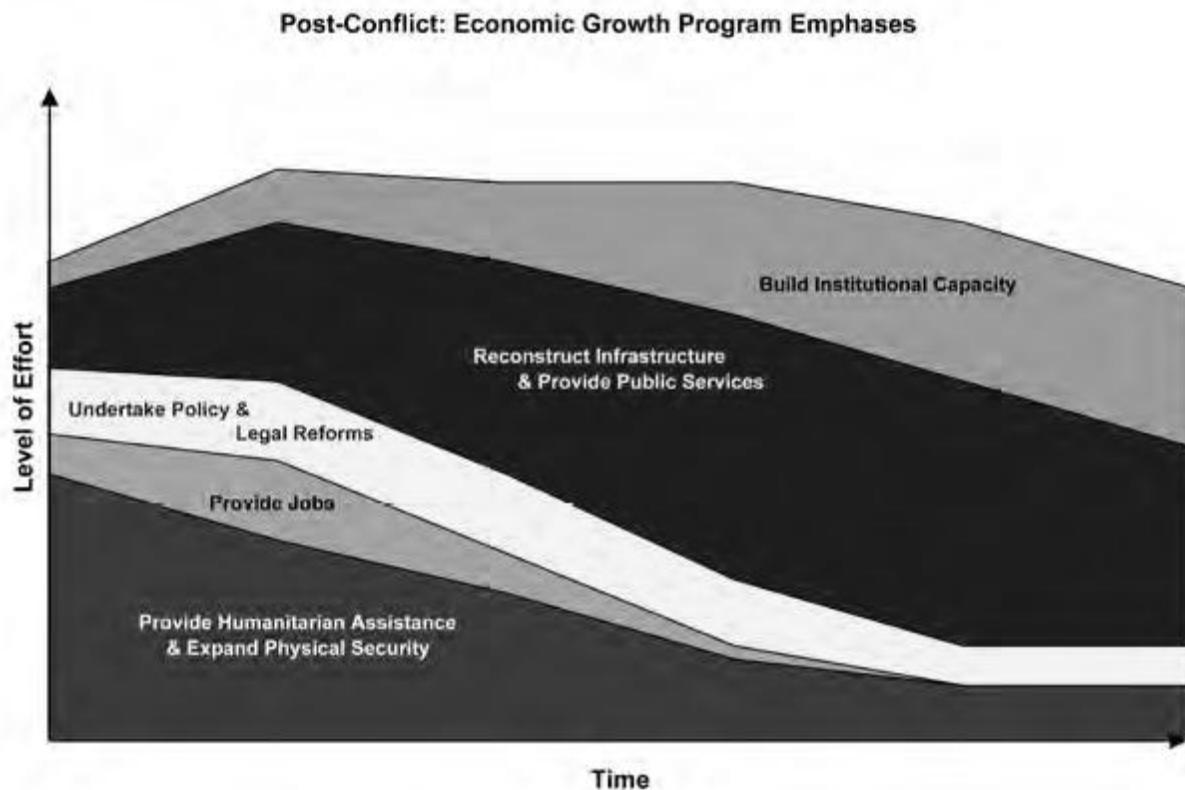


Figure 1. USAID's Timing for Emphasis on Program Areas³⁸

Military Impact on the Economy

Given that military operations will have an impact on the HN economy, a strategic decision must be made prior to operations on how the military will interact with it. Joint Publication 1-06, Financial Management Support in Joint Operations, states that in order to make financial management guidance recommendations, “the JTF comptroller must analyze the economic systems in the operational area, determine the impact of a joint operation on those systems, and predict the ability of the economic systems to support operations.”³⁹ Versed in the potential impacts, the Army financial manager can provide perspective during the planning process and implement efforts where

appropriate. Additionally, the Army financial manager can serve as a facilitator of economic intelligence by requesting and gathering information on local market prices throughout the operation.⁴⁰ This could, for example, reveal inflationary trends indicating an unintended effect.

The recommendation for this strategy must also include how best to interact with the local populous in order to encourage a viable, legitimate economy. A central element of the Army's strategic analysis is understanding the nature of the HN's economic base. Working with other agencies, once determined, the question becomes is it in the U.S.' and HN's common interests to promote and support this base, or to transition to a more sustainable legitimate economy. A combination of supporting existing legitimate segments and transitioning others may be most appropriate. As this is determined, the Army can take deliberate actions to assist the HN and to align the anticipated military impacts on the local economy with the overall strategy for HN economic development. This will involve shaping labor and employment programs to be in concert with these.

Likewise the Army can serve "... as a market participant with enough purchasing power to change the behavior of other market participants..."⁴¹ For example, the Army could require vendors to use electronic funds transfer (EFT) for payments, but would need to ensure a mechanism is in place for contractors to access bank accounts.⁴² The military can also use its "spending power to promote local companies."⁴³ Doing so may facilitate local growth that could result in sustained benefit to the local populous. These also start with an assessment of the local economies where units will be operating.

Inflation often occurs during or following conflict. For example, during the first two years of the mid 1960's U.S. military buildup in South Vietnam local prices increased by as much as 170 percent.⁴⁴ Buying goods and services locally must be done in a deliberate fashion; wages and prices should remain comparable to pre-operation levels; and the amount of goods requested for purchase also needs to be absorbable within the local supply, otherwise demand could spark inflation.⁴⁵ In order to resume and sustain economic growth, inflation must be controlled.⁴⁶

Uncontrolled inflation can have several adverse effects. First it can make it challenging for the local populous to afford the goods in demand by the military; additionally local businesses can be drawn to the rush to participate in the inflated market derived from military demand for goods.⁴⁷ This can result in an economic base that will not be sustainable after the military departs, or its demand diminishes.⁴⁸ An assessment should compare the local economy's capacity to anticipated demand for supplies and services. If it demonstrates the local economy cannot meet demand without triggering potential inflationary conditions, then the military should consider using both local and alternate sources.⁴⁹ While this may place an additional burden on the military, it may advance strategic objectives by providing a stabilizing effect on the local economy.

Local Participation and Activities

One trend noted in post-intervention operations is the tendency to dismiss pre-intervention government officials and institutions.⁵⁰ However, knowing how institutions functioned can assist in reestablishing capacity and nurturing a sense of ownership. In all actions taken to address economic conditions determined during an assessment, the local government, if not hostile, must be involved. It was found that, "Local

residents, overwhelmed by economic challenges, lose faith in a government that will not or cannot fix these problems.”⁵¹ By partnering with the local government on initiatives taken in concert with the U.S., the local government can be seen as part of the solution and garner a sense of legitimacy in the eyes of their people. In Afghanistan for example, U.S. interagency representatives meet with Afghan government partners, to include the provincial governor and finance representative when assisting in establishing banks in the province.⁵²

Positive aspects of the economy need to be enhanced and reshaped to support the HN’s ability to support its population. An assessment of the informal economy, both black and grey markets, is required. An informal economy can involve either legal or illegal activity.⁵³ Grey markets may develop “because normal distribution systems have been disrupted...”⁵⁴ By formalizing the legal aspects of the informal economy there is an opportunity to assist the HN in expanding its tax base. A question is to determine what the informal economy is, or was, providing.⁵⁵ Once what constitutes the informal economy is understood, then the question becomes how can the HN best transition appropriate portions of it to the formal economy.

Assessing and Leveraging Employment

As a major force in the local market the Army will impact employment. Job creation is a recurring theme in stability operations and should be addressed early, making it an area appropriate for a comprehensive and coordinated approach. It is a focus area early in the USAID construct. USAID identifies cash-for-work as high intensity programs during urgent, immediate, and intermediate timeframes.⁵⁶ This also aligns with S/CRS’ goal for economic stabilization where “employment generation” is listed first during their initial response phase where the goal is “Respond to immediate

needs.”⁵⁷ Likewise, FM 3-07 states, “Economic recovery begins with an actively engaged labor force.”⁵⁸ Conducting pre-operations analysis will enable funds to be directed toward projects more expeditiously. The assessment should first concentrate on how to provide jobs. In order to implement this strategy, a key question is: What are the “primary sources of employment and economic activity[?]”⁵⁹

The importance of early job creation and its connection to stability is emphasized by Keith W. Mines, a Foreign Service Officer who served in the Coalition Provisional Authority in Iraq stating, “During counterinsurgency and the early phase of a transition, spending on direct job creation – money targeting people first – is essential to anchor the all important political process and shore up security.”⁶⁰ The economic analysis must identify areas of traditional economic activity. What are these areas and what are the obstacles to increased activity?⁶¹ Cash-for-work programs that are being considered need to be structured so that they do not run counter to these activities (for example, wages need to be low enough that they do not draw field workers away from seasonal farm activities.)⁶² During the planning phase keep in mind that Commanders’ Emergency Response Program (CERP) is not primarily for economic development but rather “to provide immediate assistance to the populous.”⁶³

In addressing labor utilization, Dr. Don Rich draws attention to the tradeoffs between labor intensive and capital intensive projects across the short and long terms.

In the short term, the development process accelerates through labor-intensive projects that increase aggregate spending power, and therefore increase GDP. In the long term, however, such an emphasis on these projects imparts a bias to the economy toward labor-intensive production, a harmful bias in that modern economies are generally capital intensive.”⁶⁴

Given this, the assessment should answer the question, what are the indicators that specific short term projects in the HN are likely to inhibit transition to a capital intensive economy? Once identified, they can help shape proposed projects.

Assessing Banking and Currency

Another critical element of the economy where the military can provide support is the banking and currency system.⁶⁵ Examining a country's banking system and currency is an essential part of an economic assessment. These considerations are central and their strengths or weaknesses have lasting repercussions throughout the economic system. USAID emphasizes this linkage stating, "An efficient financial system – banks and other financial institutions – collects savings and allocates them to the most productive economic activities. A sound financial system is critical to the sustained economic growth necessary to generate tax revenues..."⁶⁶ The two overarching objectives relating to banking and finance in post-conflict countries USAID identifies are "ensur[ing] that businesses and households have the basic capacity to make payments, safely transfer funds, and protect their savings; [and] develop[ing] a government payments system that minimizes the use of cash transactions."⁶⁷ How customers make a living, use their income, and which banking services they use should be considered key questions. Likewise, learning how the HN banks use deposits and provide services is a necessary element in the assessment.

Examining pre-operation banking will enable planners to determine potential implications. Understanding who the bank customers are and comparing this information against anticipated traditional effects of conflict will be useful. For example, during testimony in June 2003, Under Secretary of the Treasury for International Affairs John B. Taylor stated that "Iraqi banks were oriented much more toward the fulfillment

of Ba'athist political objectives than toward financial intermediation and other economic services..."⁶⁸ Information of this nature on pre-operation banking operations can help shape the development of our efforts in restoring or enhancing the host nation banking sector. Knowing that the banking sector was not primarily centered on providing a service to the population may be predictive in how receptive banking officials will be to engagement strategies. Likewise, given that the intent will be not only to develop sufficient capacity, but to also change the banking sector's mind-set toward a customer orientation, will require different areas of emphasis and approach.

Both the Department of State and USAID identify currency as an item to be addressed early.⁶⁹ The decision to operate using a country's local currency, the U.S. Dollar, or another currency needs to be made deliberately. There are arguments to support each position. Either high inflation or low confidence in the HN government will cause the populous to lose faith in the local currency.⁷⁰ Given a lack of confidence in the local currency, U.S. or another foreign currency may be necessary while confidence is restored. This restoration of confidence may take the form of replacing their existing currency with a new one as was the case in Iraq.⁷¹ Some countries have chosen to adopt a foreign currency to reduce strains on their central bank; Kosovo uses the Euro for example.⁷² However, to reiterate, a "planning consideration is [what] is the impact of a sudden large influx of U.S. Dollars on the local economy [?]"⁷³ An observation from the March 2010 Wilton Park Conference on Afghanistan was that "Large injects of money that cannot be absorbed by the HN promotes corruption/bad governance leading to increased instability."⁷⁴

Once the U.S. Dollar is introduced it may be difficult later to transition to another currency. The U.S. military brought billions in U.S. currency into Iraq.⁷⁵ Before segments of an economy become accustomed to using the dollar, Army financial managers should assist in developing deliberate programs to transition off the dollar to another currency. As of 2010 the U.S. was still working to support the move to the local currency; an officer from a Theater Financial Management Center referring to the establishment of banks in Iraq stated, “By de-dollarizing the Iraqi economy we are helping to strengthen the Iraqi business and banking infrastructure and improving the value of the local currency.”⁷⁶ Likewise, a Citigroup official, while discussing Afghanistan stated, “By paying invoices in local currency, it ensures the money stays in the country to stimulate the economy.”⁷⁷

To what extent do the local populous use banks? In Afghanistan the concept that banks “secure savings and lend out money is still quite alien.”⁷⁸ The Special Inspector General for Afghanistan Reconstruction (SIGAR) reported that the preponderance of Afghanistan’s economy is cash based and relies primarily on traditional Hawaladers with less than five percent of Afghans having bank accounts⁷⁹ SIGAR learned that seventy to eighty percent of finances move through these Hawaladers.⁸⁰ Because this is an informal system, government visibility of activity is problematic. The central bank of Afghanistan, with the help of the U.S. Treasury, established a Financial Intelligence Unit and is now licensing Hawaladers, which will require reporting and improve visibility.⁸¹ This intelligence unit is the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA) whose objective is to “deny the use of the Afghani financial system to those who obtained funds as the

result of illegal activity, and to those who would use it to support terrorist activities.”⁸² To assist in their efforts they established standard procedures for reporting large cash transactions and suspicious transactions, and for posting the United Nations Security Council Resolution 1267 list of individuals and entities associated with the Taliban and Al Qaida.⁸³

Determining to what extent the populous operates in a cashless environment is important. Establishing electronic payment capability should be done early as this “[is] a highly effective means of limiting corruption.”⁸⁴ If electronic banking is commonly used, planners should prepare to leverage it. This can reduce, or potentially eliminate, the need to bring cash into the area of operations.⁸⁵ However, it is necessary to also assess the capacity of and single points of failure in the infrastructure supporting these banking systems. During planning, consider provisions to protect this infrastructure both to secure it from adversaries and to preclude inadvertent damage resulting from friendly operations.

Assessing the local currency’s value and stability will assist in developing options oriented toward host nation currency support. For example, in 2003 the U.S. Treasury was concerned about post-conflict devaluation of the Saddam Dinar and hyperinflation so it took action to secure currency warehouses and printing facilities, and announced that existing currencies would continue to be accepted, helping stabilize and strengthen the Saddam Dinar.⁸⁶ Later, the new Iraqi Dinar was released in October 2003.⁸⁷

An assessment can demonstrate that currency is part of a larger system of interrelated factors. Stabilizing a currency, while an integral part, may not always achieve objectives by itself. For example the CIA World Factbook on Iraq states in part:

The Central Bank has successfully held the exchange rate at approximately 1170 Iraqi dinar/US dollar since January 2009...However, Iraqi leaders remain hard pressed to translate macroeconomic gains into improved lives for ordinary Iraqis. Unemployment remains a problem throughout the country. Reducing corruption and implementing structural reforms, such as bank restructuring and developing the private sector, would be important steps in this direction.⁸⁸

Using this to tailor an assessment of the state of a country's currency and banking status will generate additional questions. These can inform specific efforts the U.S. can employ toward targeted bank restructuring activities. It will also enable a further analysis of what conditions enabled the currency and inflation to stabilize. A 2009 DoD report to Congress stated, "Lower inflation and a stable Iraqi dinar are helping to improve Iraqi purchasing power for basic needs and are setting the conditions for private-sector growth."⁸⁹ Once known, Army financial managers participating in the planning process can seek to have plans contain provisions to advance these conditions. Likewise, by participating in planning they can monitor plans under development for activities that may adversely impact positive trends.

As alluded to earlier, planners should be cautioned against overlooking existing institutions as part of the solution set. First, because the status quo may be fulfilling the required needs. Second, even when changes may be desired, the existing institutions can serve as partners in facilitating positive changes. An example of assessing and utilizing existing institutions is found in the case of addressing Afghanistan's currency and inflation in 2001. As related in Ashraf Ghani and Clare Lockhart's "Fixing Failed States",

[A]t least three different currencies were in circulation; they were printed in different centers, only one of which was under central government control...The IMF warned that the currency exchange would take years...however the process...took only four months...The secret was to

identify the strengths in the existing society...hawala dealers...organized the collection, and then burned and replaced the old money.⁹⁰

This demonstrates that better, more expeditious solutions can result from partnering with existing institutions when seeking to achieve objectives that support common interests.

Conclusion

Army financial managers need to enhance their understanding of economic conditions in the HN and their implications for military operations. Working in concert with HN partners and other entities will support strategies to attain our national interests. Through improved coordination with these other entities the Army can provide improved support to objectives. Conducting an economic assessment, built around specific central questions will identify where the military can assist in supporting a viable, legitimate economy and reduce the potential for creating unintended adverse effects on the HN economy. Planning and assessments must take place before military operations. Continued assessments, to include economic intelligence, are essential to determine if efforts are trending toward objectives. By focusing on near term considerations the Army will produce a positive impact during the “golden hour” that will facilitate transition to follow-on activities. While the military may continue to have a role in these later projects, they will take on an increasingly supporting nature. Central to this economic assessment is an appreciation of what impacts the military’s operation can have on the economy in the operational area. Once identified, the Army can support strategic policy objectives by conducting operations in a manner that promote a viable HN economy.

Endnotes

¹ Barack H. Obama, *National Security Strategy*, (Washington, DC: The White House, May 2010), 17, http://www.whitehouse.gov/sites/default/files/rss_viewer/national_security_strategy.pdf (accessed October 25, 2010).

² Ibid., 7.

³ Ibid., 26.

⁴ Ibid., 5.

⁵ Jeremiah S. Pam, *The Treasury Approach to State-Building and Institution-Strengthening Assistance: Experience in Iraq and Broader Implications*, (Washington, DC: United States Institute of Peace, October 2008), 2.

⁶ Daniel Wagner, "Iraq's Democratic Experiment", October 5, 2010, linked from *The Huffington Post Home Page*, http://www.huffingtonpost.com/daniel-wagner/post_1007_b_751475.html (accessed November 29, 2010).

⁷ U.S. Department of the Army, *Stability Operations*, Field Manual 3-07 (Washington, DC: Department of the Army, October 6, 2008), 2-5, https://Armpubs.us.Army.mil/doctrine/DR_pubs/dr_aa/pdf/fm3_07.pdf (accessed November 14, 2010).

⁸ Robert M. Gates, *National Defense Strategy*, (Washington, DC: U.S. Department of Defense, June 2008), 8. <http://www.defenselink.mil/news/2008%20National%20Defense%20Strategy.pdf> (accessed October 25, 2010).

⁹ Ibid., 17.

¹⁰ U.S. Department of the Army, *Financial Management Operations*, Final Draft Field Manual 1-06, approved for publishing November 3, 2010 (Washington, DC: Department of the Army, September 15, 2010), 1-16, http://www.finance.army.mil/Publications/FM_1_06.pdf (accessed March 18, 2011).

¹¹ U.S. Department of the Army, *Stability Operations*, 1-4 – 1-5.

¹² Gates, *National Defense Strategy*, 17.

¹³ Ibid., 18.

¹⁴ Robert M. Gates, *Quadrennial Defense Review Report*, (Washington, DC: U.S. Department of Defense, February 1, 2010), 104, <http://www.defense.gov/QDR/QDR%20as%20of%202026JAN10%200700.pdf> (accessed October 25, 2010).

¹⁵ George W. Bush, *National Security Presidential Directive /NSPD-44: Management of Interagency Efforts Concerning Reconstruction and Stabilization*, (Washington, DC: The White House, December 7, 2005), 2, <http://www.fas.org/irp/offdocs/nspd/nspd-44.pdf> (accessed December 4, 2010).

¹⁶ Ibid.

¹⁷ U.S. Department of State, *The Quadrennial Diplomacy and Development Review (QDDR) Fact Sheet*, <http://www.state.gov/documents/organization/153109.pdf> (accessed January 6, 2011).

¹⁸ Hillary Rodham Clinton, *The First Quadrennial Diplomacy and Development Review (QDDR): Leading Through Civilian Power*, (Washington DC: U.S. Department of State, 2010), 4, <http://www.state.gov/documents/organization/153108.pdf> (accessed January 6, 2011).

¹⁹ Ibid., 15.

²⁰ Pam, *The Treasury Approach to State-Building and Institution-Strengthening Assistance: Experience in Iraq and Broader Implications*, 3.

²¹ Ibid., 5.

²² Ibid.

²³ Ibid., 7.

²⁴ International Monetary Fund, “Factsheet: The IMF and World Bank”, September 15, 2010, linked from *The International Monetary Fund Home Page* at “About the IMF,” <https://www.imf.org/external/np/exr/facts/imfwb.htm> (accessed December 11, 2010).

²⁵ Keith Crane et al., *Technical Report: Guidebook for Supporting Economic Development in Stability Operations*, (Santa Monica, CA: Rand, 2009), 7.

²⁶ Ibid., 8.

²⁷ U.S. Department of the Army, *Operations*, Field Manual 3-0 (Washington, DC: Department of the Army, February, 2008), 3-2, www.dtic.mil/doctrine/jel/service_pubs/fm3_0a.pdf (accessed March 5, 2011).

²⁸ David A. Anderson and Andrew Wallen, “Preparing for Economics in Stability Operations,” *Military Review* (June 2008): 100, in ProQuest, (accessed November 22, 2010).

²⁹ U.S. Department of State, *Post-Conflict Reconstruction Essential Tasks*, Department of State Publication 11463, (Washington, DC: October 2007), iii.

³⁰ U.S. Agency for International Development, *A Guide to Economic Growth in Post-Conflict Countries*, (Washington, DC: U.S. Agency for International Development, January 2009), ix, http://pdf.usaid.gov/pdf_docs/PNADO408.pdf (accessed November 14, 2010).

³¹ U.S. Department of State, *Post-Conflict Reconstruction Essential Tasks*, iii.

³² Ibid.

³³ U.S. Department of the Army, *Stability Operations*, 2-5.

³⁴ U.S. Department of State, *Post-Conflict Reconstruction Essential Tasks*, IV-1 – IV-14.

³⁵ U.S. Department of the Army, *Stability Operations*, 3-15 – 3-17.

³⁶ U.S. Department of the Army, *Financial Management Operations*, 1-18.

³⁷ U.S. Agency for International Development, *A Guide to Economic Growth in Post-Conflict Countries*, 11.

³⁸ Ibid.

³⁹ U.S. Joint Chiefs of Staff, *Financial Management Support in Joint Operations*, Joint Publication 1-06 (Washington, DC: U.S. Joint Chiefs of Staff, March 4, 2008), IV-1, http://www.fas.org/irp/doddir/dod/jp1_06.pdf (accessed January 6, 2011).

⁴⁰ Larry H. Brady, Professor of International Development, U.S. Army War College, interview by author, December 27, 2010.

⁴¹ Peter E. Kunkel, "How Jesse James, the Telegraph, and the Federal Reserve Act of 1913 Can Help the Army Win the War on Terrorism: The Unrealized Strategic Effects of a Cashless Battlefield," *Military Review*, 88, no. 6 (November-December 2008): 90, in ProQuest (accessed December 19, 2010).

⁴² Ibid., 91.

⁴³ Jason Kelly, "Afghanistan: Land of War and Opportunity," *Bloomberg Businessweek* (January 6, 2011), http://www.businessweek.com/magazine/content/11_03/b4211046076242.htm (accessed January 10, 2011).

⁴⁴ George C. Herring, *America's Longest War: The United States and Vietnam, 1950-1975* (New York: McGraw-Hill, 2002), 197.

⁴⁵ For background on the effects of the U.S. military on local economies, see Keith Crane et al., *Technical Report: Guidebook for Supporting Economic Development in Stability Operations*, (Santa Monica, CA: Rand, 2009), 119-129.

⁴⁶ Crane et al., *Technical Report: Guidebook for Supporting Economic Development in Stability Operations*, 77.

⁴⁷ Ibid., 120.

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ Pam, *The Treasury Approach to State-Building and Institution-Strengthening Assistance: Experience in Iraq and Broader Implications*, 7.

⁵¹ Crane et al., *Technical Report: Guidebook for Supporting Economic Development in Stability Operations*, 77.

⁵² Curt Rauhut et al., "Banking in Afghanistan after four years of Electronic Funds Transfer," *The Gryphon* 1, no. 11 (August 2010), 20, <https://www.us.Army.mil/suite/doc/24308689> (accessed September 21, 2010).

⁵³ U.S. Agency for International Development, *Conducting a Conflict Assessment: A Framework for Strategy and Program Development*, (Washington, DC: U.S. Agency for International Development, August 17, 2004), 24, http://www.usaid.gov/our_work/cross-cutting_programs/conflict/publications/docs/CMM_ConflAssessFrmwrk_8-17-04.pdf (accessed December 13, 2010).

⁵⁴ Crane et al., *Technical Report: Guidebook for Supporting Economic Development in Stability Operations*, 11.

⁵⁵ Ibid., 12.

⁵⁶ U.S. Agency for International Development, *A Guide to Economic Growth in Post-Conflict Countries*, 34.

⁵⁷ U.S. Department of State, *Post-Conflict Reconstruction Essential Tasks*, IV-1.

⁵⁸ U.S. Department of the Army, *Stability Operations*, 3-15.

⁵⁹ Crane et al., *Technical Report: Guidebook for Supporting Economic Development in Stability Operations*, 106.

⁶⁰ Keith W. Mines, "The Economic Tool in Counterinsurgency and Post-Conflict Stabilization: Lessons Learned (and Relearned) in Al Anbar, Iraq, 2003-2004," in *Countering Insurgency and Promoting Democracy*, ed. Manolis Prinotakis (New York: The Council for Emerging National Security Affairs, 2007), 184.

⁶¹ Crane et al., *Technical Report: Guidebook for Supporting Economic Development in Stability Operations*, 106.

⁶² U.S. Agency for International Development, *A Guide to Economic Growth in Post-Conflict Countries*, 35.

⁶³ Crane et al., *Technical Report: Guidebook for Supporting Economic Development in Stability Operations*, 25.

⁶⁴ Don Rich, "Markets, Democracy, Development, and Insurgency," in *Countering Insurgency and Promoting Democracy*, ed. Manolis Prinotakis (New York: The Council for Emerging National Security Affairs, 2007), 198.

⁶⁵ U.S. Department of the Army, *Stability Operations*, 3-16.

⁶⁶ *The United States Agency for International Development Home Page*, <http://www.usaid.gov> (accessed September 29, 2010).

⁶⁷ U.S. Agency for International Development, *A Guide to Economic Growth in Post-Conflict Countries*, 73.

⁶⁸ John B. Taylor, "Reconstruction in Iraq: Economic and Financial Issues," June 4, 2003, linked from *The United States Department of Treasury Home Page* at "Press Room," <http://www.ustreas.gov/press/release/js452.htm> (accessed November 9, 2010).

⁶⁹ U.S. Department of State, *Post-Conflict Reconstruction Essential Tasks*, IV-2 and U.S. Agency for International Development, *A Guide to Economic Growth in Post-Conflict Countries*, 16.

⁷⁰ Crane et al., *Technical Report: Guidebook for Supporting Economic Development in Stability Operations*, 77.

⁷¹ “New Iraqi Currency,” linked from *The Global Security Home Page* at “Iraq,” <http://www.globalsecurity.org/military/world/iraq/currency-reform.htm> (accessed November 29, 2010).

⁷² Crane et al., *Building a More Resilient Haitian State*, (Santa Monica, CA: Rand, 2009), 84, <http://www.rand.org/pubs/monographs/MG1039.html> (accessed December 19, 2010).

⁷³ U.S. Joint Chiefs of Staff, *Financial Management Support in Joint Operations*, IV-3.

⁷⁴ U.S. Joint Forces Command, *Integrated Financial Operations Commander’s Handbook: A Joint Force Guide to Financial Operations*, (Suffolk, VA: Joint Forces Command, November 2, 2010), III-4.

⁷⁵ Kunkel, “How Jesse James, the Telegraph, and the Federal Reserve Act of 1913 Can Help the Army Win the War on Terrorism: The Unrealized Strategic Effects of a Cashless Battlefield,” 90.

⁷⁶ Tresa L. Allemang, “US, Iraq partner on Bank of Baghdad | United States Forces – Iraq,” *The Gryphon* 1, no. 10 (July 2010), 28, <https://www.us.Army.mil/suite/doc/23878497> (accessed December 19, 2010).

⁷⁷ Kelly, “Afghanistan: Land of War and Opportunity.”

⁷⁸ Ibid.

⁷⁹ Arnold Fields, Special Inspector General for Afghanistan Reconstruction, *Quarterly Report to the United States Congress* (Arlington, VA: Special Inspector General for Afghanistan Reconstruction, October 30, 2010), 96, <http://www.sigar.mil/reports.asp> (accessed November 8, 2010).

⁸⁰ Ibid.

⁸¹ Ibid.

⁸² *The Financial Transactions and Reports Analysis Center of Afghanistan Home Page*, <http://www.fintraca.gov.af/default.aspx> (accessed February 6, 2011).

⁸³ Ibid.

⁸⁴ Crane et al., *Technical Report: Guidebook for Supporting Economic Development in Stability Operations*, 81.

⁸⁵ U.S. Department of the Army, *Financial Management Operations*, 3-3.

⁸⁶ Taylor, “Reconstruction in Iraq: Economic and Financial Issues.”

⁸⁷ “New Iraqi Currency,” linked from *The Global Security Home Page* at “Iraq,” <http://www.globalsecurity.org/military/world/iraq/currency-reform.htm> (accessed November 29, 2010).

⁸⁸ “Iraq”, linked from *The U.S. Central Intelligence Agency Home Page* at “The World Factbook,” <https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html> (accessed December 8, 2010).

⁸⁹ U.S. Department of Defense, *Measuring Stability and Security in Iraq: September 2009 Report to Congress* (Washington DC: U.S. Department of Defense, November 4, 2009), 13, [http://www.defense.gov/home/features/Iraq_ Reports/index.html](http://www.defense.gov/home/features/Iraq_Reports/index.html) (accessed October 31, 2010).

⁹⁰ Ashref Gahani and Clare Lockhart, *Fixing Failed States: A Framework for Rebuilding a Fractured World*, (New York: Oxford University Press, 2008), 208-209.